

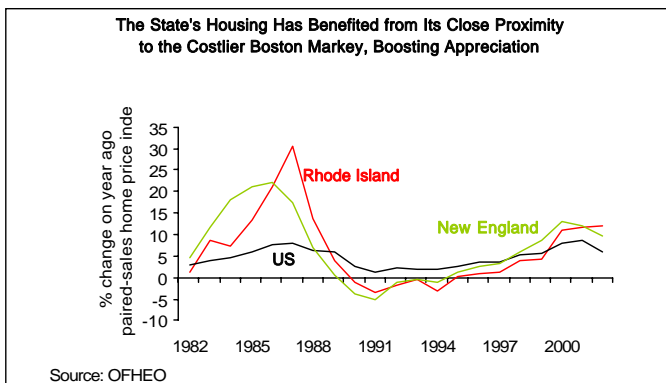
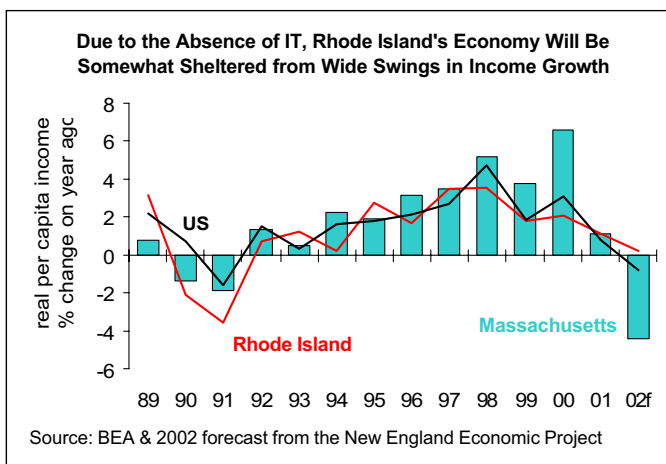
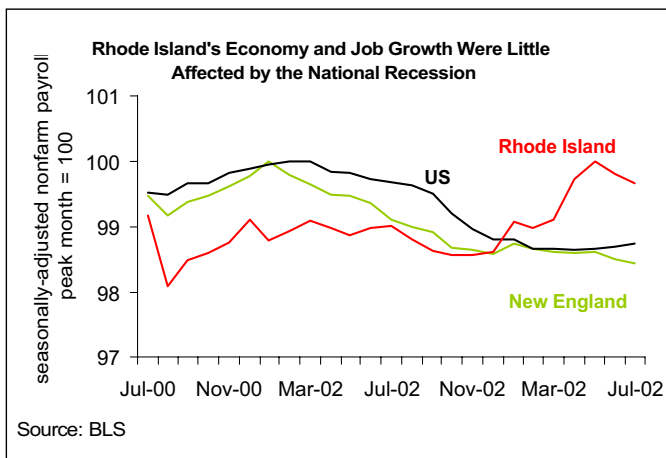
# FDIC State Profile

WINTER 2002

## Rhode Island

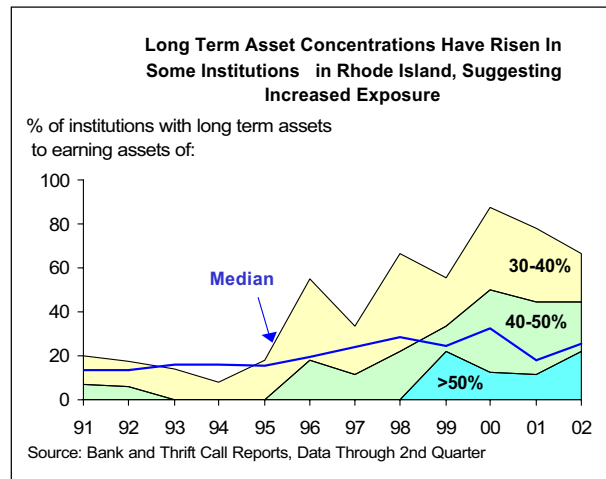
The recent national recession largely bypassed Rhode Island's economy, due to its limited dependence on technology, business investment demand, and stock-market wealth effects.

- The recent recession's impact was limited in Rhode Island. As a result, the state boasted New England's strongest year-to-date job growth through July (see **top chart**).
- Prior to the recession, the state's more-cyclically sensitive factory sector was already in a prolonged period of contraction, with net manufacturing payrolls declining in every year since 1984.
- Further, the state's economy hardly displayed any of the boom-like qualities of neighboring Massachusetts during the late stages of the past expansion. Income growth trends highlight this fact (see **middle chart**).
- Given the absence of strong growth and an ongoing consolidation in manufacturing, the national recession's cyclical impact was more muted in Rhode Island than in neighboring states.
- It is likely that at least some of the state's residents work in the technology (IT) companies of greater Boston. This may impinge on income and spending trends in the state as the slump in IT lingers.
- However, many of the state's residents may also commute to more stable jobs in Connecticut's tribal casinos or work in other industries in and out of state. Thus the recent slump in the IT sector should not weigh as heavily on the state's income and spending as it will in nearby Massachusetts.
- Home price appreciation has continued to accelerate this year, exceeding the New England average (see **bottom chart**). Throughout the late 1990s, the state's housing benefited from its commutable proximity to more vibrant labor markets in greater Boston and southwestern Connecticut. Despite relative affordability, accelerating home price appreciation in Rhode Island may be unsustainable if the economy remains lackluster and price growth in greater Boston continues to decelerate.
- Though it escaped the recession largely unscathed, there are few internal catalysts likely to boost the state's economy going forward. An upturn in the national economy is likely necessary to sustain meaningful job and income growth into next year.



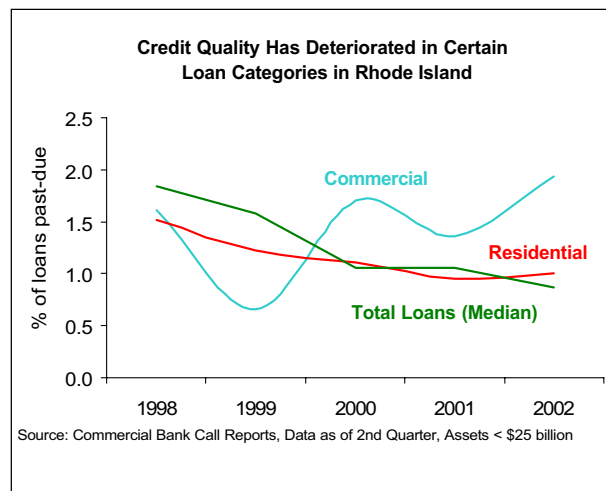
**Interest Rate Risk remains a concern for institutions that increased concentrations of fixed, long-term assets during the recent refinancing waves.**

- With the conventional 30-year mortgage rate below 7.25% for the past 18 months, refinancing activity has been strong as borrowers seek to lock in long-term, fixed-rate loans at lower rates.
- During this time, asset maturities have lengthened at some institutions without matching liability extension. Median long-term assets to earning assets rose during the past year, as nearly one quarter of Rhode Island's institutions now have long-term asset concentrations greater than 50 percent. Strong long-term asset growth has been widespread in the state, with a median growth rate of 22 percent over the past year.
- This trend is especially pronounced in the state, as is true for the rest of New England, due to the large percentage of thrifts and residential lenders. Savings institutions represent half of insured institutions in Rhode Island, and residential real estate loans comprise 55 percent of the average loan portfolio in the state.



**Although overall credit quality improved during the second quarter, certain loan delinquencies deteriorated and could become more pronounced with the weak economy.**

- The median past-due ratio improved during the first quarter of 2002; however, residential real estate and commercial loan delinquencies increased over the past year.
- Over one quarter of Rhode Island's institutions report high-risk<sup>1</sup> loan concentrations of at least 300 percent of capital. The median high-risk loan concentration in the **Providence** MSA remains low compared to other metro areas in New England, but exposure levels have been increasing.
- Portfolios in the state have been shifting towards traditionally higher-risk loans due to strong commercial real estate and construction loan growth over past few years, which could contribute to further deterioration in asset quality.



**Modest denovo activity continues in Rhode Island.**

- Rhode Island has experienced moderate denovo activity. As of second quarter 2002, three institutions had been chartered within the past two years, representing roughly 20 percent of institutions. These banks may be more susceptible to economic downturns and may face challenges in less favorable economic climates.

<sup>1</sup>High risk is defined as Commercial, Construction, Commercial Real Estate and Multifamily loans.

## Rhode Island at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Institutions (#)	14	13	12	13	13
Total Assets (in thousands)	197,118,571	208,500,276	164,189,841	93,426,600	87,210,502
New Institutions (# <3 years)	3	1	1	1	2
New Institutions (# <9 years)	5	3	2	2	2
<b>Capital</b>					
Tier 1 Leverage (median)	9.95	8.31	7.65	8.00	8.16
<b>Asset Quality</b>					
Past-Due and Nonaccrual (median %)	0.87%	1.06%	1.06%	1.58%	1.85%
Past-Due and Nonaccrual ≥ 5%	0	1	1	2	1
ALLL/Total Loans (median %)	1.20%	1.30%	1.32%	1.47%	1.58%
ALLL/Noncurrent Loans (median multiple)	3.44	2.37	3.31	2.48	2.82
Net Loan Losses/Loans (aggregate)	2.14%	1.00%	1.17%	1.31%	1.14%
<b>Earnings</b>					
Unprofitable Institutions (#)	1	1	0	0	0
Percent Unprofitable	7.14%	7.69%	0.00%	0.00%	0.00%
Return on Assets (median %)	1.02	0.76	1.17	1.09	1.14
25th Percentile	0.66	0.51	0.82	0.83	0.86
Net Interest Margin (median %)	3.75%	3.90%	4.18%	4.18%	4.30%
Yield on Earning Assets (median)	6.41%	7.82%	7.82%	7.51%	8.20%
Cost of Funding Earning Assets (median)	2.60%	3.99%	4.19%	3.59%	4.03%
Provisions to Avg. Assets (median)	0.13%	0.05%	0.17%	0.15%	0.19%
Noninterest Income to Avg. Assets (median)	1.51%	1.09%	1.19%	1.36%	1.23%
Overhead to Avg. Assets (median)	3.49%	3.37%	3.45%	3.27%	3.37%
<b>Liquidity/Sensitivity</b>					
Loans to Deposits (median %)	83.47%	85.34%	89.86%	86.60%	89.22%
Loans to Assets (median %)	61.42%	67.00%	67.80%	71.08%	73.17%
Brokered Deposits (# of Institutions)	3	3	3	3	2
Bro. Deps./Assets (median for above inst.)	0.22%	0.61%	0.82%	0.98%	3.03%
Noncore Funding to Assets (median)	21.53%	26.28%	26.75%	22.57%	18.18%
Core Funding to Assets (median)	62.38%	62.42%	62.81%	64.79%	67.39%
<b>Bank Class</b>					
State Nonmember	3	4	4	5	5
National	4	3	2	2	2
State Member	0	0	0	0	0
S&L	2	1	1	1	1
Savings Bank	3	3	3	3	3
Mutually Insured	2	2	2	2	2
<b>MSA Distribution</b>					
	# of Inst.	Assets	% Inst.	% Assets	
Providence-Fall River-Warwick RI-MA	9	194,466,063	64.29%	98.65%	
No MSA	3	951,165	21.43%	0.48%	
New London-Norwich CT-RI	2	1,701,343	14.29%	0.86%	